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RUEHGH/AMCONSUL SHANGHAI 0144
RUEHSH/AMCONSUL SHENYANG 5226
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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001697

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SUBJECT: MOTC MIN ON DIRECT LINKS, PROCUREMENT, AND HIGH-SPEED RAIL

Classified By: AIT Director Stephen M. Young, Reason 1.4 d

¶1. (C) Summary: In a May 12 conversation with the Director, Minister of Transportation and Communications Kuo Yao-chi described some of the obstacles standing in the way of direct air links with the Mainland. She expressed Taiwan interest in acceding to the Government Procurement Agreement in the WTO or tying a U.S.-Taiwan bilateral government procurement agreement to a free trade agreement. Kuo indicated that the high-speed rail project would begin operations on time and should be able to overcome its financial problems. End summary.

¶2. (U) AIT Director Stephen Young met with Minister of Transportation and Communications Kuo Yao-chi on May 12. Kuo assumed her current position in January 2006. Previously, she headed the Public Construction Commission for four years.

Direct Links - Taiwan Wants Cargo Charters

¶3. (C) The Director asked when Taiwan would expand the "three links" with the Mainland (transportation, commercial and postal and communications links). Kuo said that there was a structure in place to discuss charter flights but that there had been no breakthrough. Taiwan wants to proceed with cargo charter flights first. Kuo noted that one issue of contention was the PRC's preferred destination points for cargo charter flights. In addition, the PRC refuses to allow charter flights to use routes that would pass through the airspace of another country such as Japan or Korea. Kuo also explained Taiwan's interest in linking passenger charter flights to further progress on opening up Taiwan to PRC tourists. On tourism, Taiwan is waiting for information about the PRC industry organization that will lead informal discussions so that Taiwan can form a similar organization.

¶4. (C) The Director told Kuo that the United States supports direct air links because they would bring increased contact between the peoples of Taiwan and the Mainland. However, the United States also hopes that U.S.

and other international businessmen and tourists will be able to use the flights. In addition, the Director expressed U.S. interest in foreign airlines being allowed to participate in cross-Strait routes.

Government Procurement - Taiwan Wants to Sign in WTO

15. (C) Noting preparations for U.S.-Taiwan Trade and Investment Framework Agreement (TIFA) talks later in the month, the Director asked Kuo that Taiwan consider opening up its government procurement process to let more foreign companies compete. Kuo said that Taiwan wanted to sign the WTO Government Procurement Agreement (GPA) but the PRC had blocked Taiwan participation. Taiwan had approved all of the content of the agreement and still wants to sign it. She reported that major agencies had already been instructed to further open their procurement process. She expressed frustration because the PRC has no legitimate reason to object to Taiwan's participation in the GPA.

16. (C) The Director commented that the PRC doesn't seem to feel it needs any other reason than opposing Taiwan. He suggested that if Taiwan entered into bilateral government procurement agreements with other WTO members, it would help build support within the organization for Taiwan participation in the multilateral GPA. Kuo also said that tying a bilateral agreement to a free trade agreement would help create support in Taiwan.

High-Speed Rail - "Should Be OK"

17. (C) When asked about the status of Taiwan's high-speed

TAIPEI 00001697 002 OF 002

rail project, Kuo said that it should be able to begin service on time in October. She said that the project's financial problems "should be OK." Kuo reported that the major engineering portion of the project was nearly done and described in some detail the stations that were still not completed. (Comment: Kuo's well-practiced and detailed response suggests that she is watching the project closely and reflects the Chen administration's determination not to let the project fail. End comment.)

YOUNG